

**REPORT OF THE AUDIT OF THE
CAMPBELL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CAMPBELL COUNTY SHERIFF

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the Campbell County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Campbell County Sheriff had total revenues of \$1,701,147, which was an \$183,562 decrease from the prior year. The Sheriff paid 75% of the revenues into the operating fund in the amount of \$1,290,616. This was a decrease of \$130,799 from the prior year. The Sheriff paid 25% of the revenues to the Campbell County Fiscal Court in the amount of \$336,671. This was a decrease of \$36,839 from the prior year. Other expenditures totaled \$73,860. This was a decrease of \$6,600 from the prior year.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF REVENUES AND EXPENDITURES – REGULATORY BASIS	3
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES OF THE SHERIFF’S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER – REGULATORY BASIS.....	4
NOTES TO THE FINANCIAL STATEMENTS.....	6
COMMENT AND RECOMMENDATION	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steven Pendery, Campbell County Judge/Executive
Honorable John D. Dunn, Jr., Campbell County Sheriff
Members of the Campbell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Campbell County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2005. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 19, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Steven Pendery, Campbell County Judge/Executive
Honorable John D. Dunn, Jr., Campbell County Sheriff
Members of the Campbell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Campbell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 19, 2006

CAMPBELL COUNTY
JOHN D. DUNN, JR., SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES – REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	34,485	
State Fees for Services			235,818
Fiscal Court			28,590
County Clerk			4,573
Commission on Taxes			1,115,322
Fees Collected for Services:			
Auto Inspections	\$	35,490	
Serving Papers		132,940	
CCDW		21,940	
Tax Penalty Fees		80,337	270,707
Other Revenues:			
Interest Earned			11,652
Total Revenues			1,701,147

Expenditures

Payments to State:			
Carrying Concealed Deadly Weapon Permits			14,800
Payments to County:			
Serving Papers		44,060	
Postage		15,000	59,060
Total Expenditures			73,860
Net Revenues			1,627,287
Payments to State Treasurer:			
75% Operating Fund		1,290,616	
25% County Fund		336,671	1,627,287
Balance Due at Completion of Audit			\$ 0

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
JOHN D. DUNN JR., SHERIFF
STATEMENT OF REVENUES, EXPENDITURES AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2005

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2005	\$ 447,286	\$	\$ 447,286
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,290,616		1,290,616
Reimbursement From Travel Account (75%)	11,000		11,000
Fees Paid to State - County Funds (25%)		336,671	336,671
Total Funds Available	1,748,902	336,671	2,085,573
<u>Expenditures</u>			
Campbell County Fiscal Court		336,671	336,671
Personnel Services-			
Official's Statutory Maximum	86,234		86,234
Deputies' Salaries	744,657		744,657
Employee Benefits-			
Employer's Share Social Security	60,184		60,184
Employer's Share Retirement	125,462		125,462
Employer's Paid Health Insurance	81,421		81,421
Dental and Life Insurance	10,878		10,878
Unemployment Insurance	5,286		5,286
Materials and Supplies-			
Office Supplies	34,862		34,862
Uniforms	3,326		3,326
Other Charges-			
Dues	50		50
Postage	2,742		2,742
Vehicle Insurance	20,066		20,066
Legal Services	8,000		8,000

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
 JOHN D. DUNN JR., SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For the Year Ended December 31, 2005
 (Continued)

Expenditures (Continued)

Other Charges- (Continued)

Computer Services	\$ 3,000	\$	\$ 3,000
Travel	464		464
Telephone	7,772		7,772
Auto Expenses-			
Gasoline	29,754		29,754
Maintenance and Repairs	12,262		12,262
Capital Outlay-			
Vehicle	110,366		110,366
Total Expenditures	1,346,786	336,671	1,683,457
Fund Balance - December 31, 2005	\$ 402,116	\$ 0	\$ 402,116

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
JOHN D. DUNN, JR., SHERIFF
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005
- Payroll expenditures incurred but not paid
-

The Attorney General issued a letter, which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

CAMPBELL COUNTY
JOHN D. DUNN, JR., SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2005

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CAMPBELL COUNTY
JOHN D. DUNN, JR., SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2005

Note 4. Travel Account

The Sheriff maintains a travel account for “return of fugitives” receipts reimbursed by the state. The account had a beginning balance of \$9,323, receipts of \$29,893, and expenditures of \$29,116. The ending balance, as of December 31, 2005, was \$10,100.

In July of 2005 the Sheriff transferred his unexpended balance of \$11,000 from the travel account to the state. The Sheriff did so on a pay-in Voucher.

COMMENT AND RECOMMENDATION

CAMPBELL COUNTY
JOHN D. DUNN, JR., SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2005

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Management has considered and rejected additional costs when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. Therefore, the Auditor of Public Accounts has judged the lack of an adequate segregation of duties as a reportable condition and a material weakness.

Because of the limitations of the Sheriff's office, it appears that only compensating controls may mitigate the lack of a proper segregation of duties. Compensating controls require the Sheriff's direct supervision over revenues and expenditures and include, but are not limited to the following:

- Cash recounted and deposited by the Sheriff.
- Surprise cash counts by the Sheriff.
- Reconciliation of monthly reports by the Sheriff.
- Requiring dual signatures on checks with one being that of the Sheriff.
- Examination by the Sheriff of checks for proper documentation.
- Bank reconciliations prepared by the Sheriff.

We recommend that these controls be performed in order to offset a lack of adequate segregation of duties. Documentation of these controls should be maintained for the auditor in order to verify their existence.

Sheriff's Response: The Sheriff had no comment.

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties

This has not been corrected and has been repeated in the current year.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steven Pendery, Campbell County Judge/Executive
Honorable John D. Dunn, Jr., Campbell County Sheriff
Members of the Campbell County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Campbell County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated July 19, 2006. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Campbell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Campbell County Sheriff's financial statements for the year ended December 31, 2005, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 19, 2006

